



Reform on Tap Task Force

Meeting #6
September 6, 2017
Laurel, MD



Independent Beverage Retailers

Providing choice, service and accountability



- Independent business people; Often multi-generational & family-owned; Active in communities
- Beverage licensees check more IDs than most law enforcement officers
- Some of the last stores on American “Main Streets”
- Beverage retailers sell an astonishing ~68 billion 12-ounce servings of beer per year.
- **No better friend to craft beverages than independent retailers**



The Last Store on Main Street

Independent beverage licensees help form the most diverse and innovative beverage alcohol marketplace in the world

Economic Impact of Beverage Retailers

~2/3 of U.S. adults enjoy beverage alcohol...



- ...which means that America's independent and local bars, taverns and package stores play a large role in that enjoyment.

ECONOMIC IMPACT

In the United States, the direct retail sales of the beverage alcohol industry are responsible for **\$762 billion in total economic activity.**

JOBS

Establishments that sell alcohol employ as many as **5.65 million people** in the United States, and generate an additional 2.61 million jobs in supplier and ancillary industries.

WAGES

Businesses selling alcohol in the United States, along with their supplier and ancillary industries, pay **\$281 billion in wages** and benefits each year. This amounts to an average of \$34,000 in wages and benefits.

TAXES

In the United States, the industry and its employees pay over **\$43 billion in state taxes,** and an additional **\$64 billion in federal taxes.**

Source: John Dunham & Associates. *2016 Economic Impact Study of America's Beer, Wine and Spirits Retailers.* New York, July 2016

Economic Impact of Beverage Retailers

...in MARYLAND



ECONOMIC IMPACT

The direct retail sales of the beverage alcohol industry are responsible for **\$4.56 billion in total economic activity.**

JOBS

Establishments that sell alcohol employ as many as **31,511 people**, and generate an additional 14,815 jobs in supplier and ancillary industries.

WAGES

Businesses selling alcohol, along with their supplier and ancillary industries, pay **\$1.75 billion in wages** and benefits each year.

TAXES

The industry and its employees pay over **\$306 million in state and local taxes**, and an additional **\$402 million in federal taxes.**



Source: John Dunham & Associates. *2016 Economic Impact Study of America's Beer, Wine and Spirits Retailers*. New York, July 2016

Framing the Debate

What should the beverage alcohol marketplace look like?



- **Cognitive Dissonance**

- Access is good; but licensing/control structures exist for a reason
- Innovation is good; but Three-Tier exists for a reason

- **Regulation**

- Sensible market regulation where alcohol is celebrated & respected – not demonized – is not antithetical to growth, social responsibility and consumer satisfaction....it is one of the reasons for it!

- **Realities**

- More SKUs, brands and mainstream styles than ever before
- Beer, wine and spirits remain affordable luxuries for American consumers; consumer interest

- **Challenges**

- Saturation; Limited cooler/shelf space; Availability; Customer expectations
- For some new market entrants:
 - Their business models rely on changing regulatory/licensing systems i.e. “Shoot first...”
 - Alcohol is a secondary enhancement to their primary interests
 - EX: “I sell pickles this way. Why can’t I sell vodka this way? Why isn’t everyone selling vodka this way?”

Outlet Density

What is the right number of places to buy liquor?



- Consumption of alcohol the in U.S. is essentially flat
 - The pie is not growing...it is just being cut up into more pieces.
 - Some shifts in WHAT people are drinking
 - EX: Beer YTD: -1.2%; Wine and spirits up
- U.S. average is 3.34 liquor stores per 10,000 adult residents
- Maryland, excluding Montgomery County, averages 3.02 stores
- **TAKEAWAY:** Liquor availability is Maryland is nearly at the national average.

Sources: NABCA, Beverage Information Group and state alcohol licensing websites

Retail Liquor License Restrictions

It is normal for government to limit permits per entity?



- 1 – Arkansas, District of Columbia, Kansas, Maryland, Mississippi, New York, Pennsylvania*, Rhode Island, Vermont, Wyoming *Pennsylvania: For beer distributors
- 2 – Delaware, Georgia, New Jersey
- 3 – South Carolina
- 4 – Connecticut
- 5 – Colorado*, Missouri, Texas
- 7 – Massachusetts (9 in 2020)

*Colorado: Will expand to 8 licenses in 2022; 13 in 2027; 20 in 2032; unlimited in 2037.

- Control State Retail: AL, ID, ME, MT, NC, NH, OH, OR, PA, UT, VA
- **TAKEAWAY 1:** 18 jurisdictions (17 states +DC) have limits per entity; 11 Control states also limit or “control” retail operations
- **TAKEAWAY 2:** It is normal for states to limit the number of retail liquor licenses a person/company can hold.

Multi-State Corporate Chains

Does this model benefit consumers? Alcohol producers?



- **Private Label**

- The heavy use of private labels by multi-state corporate chain alcohol retailers, when combined with consumer data, means that these retailers can influence alcohol purchases in unexpected ways that are not immediately recognizable – or necessarily transparent. This allows for increased “ownership” of the consumer and raises questions about pricing, retail competition, consumer “choice”, as well as competition with independent brands.

- **Limited SKUs**

- “Walgreens runs a highly efficient beverage alcohol unit. It stocks just 150 SKUs for wine, 50 for spirits and 35 for beer. The buying must be absolutely targeted, with not a single underperforming brand, Turner says. On new products, Walgreens generally lets a label perform in independent channels first before stocking it.”

Source: Shanken News Daily. “Walgreens: Beverage Alcohol Powerhouse”. August 22, 2017.

- **Responsibility**

- Independent retailers understand the market & industry products, and the responsibility that comes with their license. **If they lose their license, they lose their business.** Does that same sentiment pervade grocery, pharmacy, convenience, gas and other non-traditional alcohol retailers?

Washington State

An example of what not to do

- **DISCLAIMER:** ABL has no position on privatization
- 2011 ballot initiative I-1183 closed state liquor stores; created 10,000 sq. ft. minimum for new stores; 17% fee on retailers, other fees
- **~170 independent stores were grandfathered-in but many of those are now closed; small producer market access curtailed**
- **Hopefully we can all agree that creating a retail alcohol marketplace that essentially eliminates small businesses, raises prices and effectively decreases product choice for consumers is BAD POLICY.**



Liquor thefts have tripled in Puyallup post-privatization

The Oregonian

Liquor privatization in Washington bad for youths, new study says



Stores seeing huge spike in liquor thefts

THE WALL STREET JOURNAL.

Liquor Buyers Cross State Line

Prices Went Up—Not Down—After Washington State Ended Control of Booze Sales



Privatizing liquor hasn't brought price down

New Jersey

Economic impact of allowing chain licensing



- **Current Law:** A 2-license limit state per entity; grocers and other chains are allowed to sell alcohol at two locations
- **Legislation:** Would increase the number of alcohol retail licenses permitted to be owned by a single entity from 2 to as many as 10 over a multi-year incremental timeframe
- **Economic impact study:** “Removing plenary retail distribution license limits for certain stores has the strong probability of negatively impacting State tax revenues and incurring direct and indirect job losses.”
- **Key Findings:**
 - “17% to 32% market shift from Independent Liquor Stores to Big Box stores”
 - “A 1.4 employee net loss for every new employee hired”
 - “A strong probability of small store closures and long-term negative direct and indirect upstream/downstream effect on tax, income, employee and wealth multipliers”
 - “For every \$1 million dollars in gross liquor sales that transfers from small liquor stores to Big Box grocery stores the State will realize \$75,000 dollars less in income subject to taxation.”

Source: Grand Institute. *Economic Analysis of the Impact on Market Structure and State Tax Revenues of New Jersey A1325 and S2009*. Mt. Laurel, NJ. October 2012

Florida

Citizens, Governor rejects “Whiskey & Wheaties” bill



- Would have “allowed grocery stores, big box retailers and other stores to sell liquor in the same space as other products. Currently, liquor must be sold in a side store separated by a wall.”
- Would have put at risk numerous independent package stores in shopping center and strip malls with grocery stores
 - **Over one-third of independent liquor stores in Florida are in plazas that have a big box retailer or supermarkets** (Source: USNews)
- 1,174 phone calls, emails and letters urging the Governor to sign the bill
- 7,516 phone calls, emails and letters urging the Governor to veto the bill



Tennessee

Wine in grocery law destroying independent stores



- The Tennessee legislature passed a law allowing grocers to sell wine, in addition to the beer they already stocked, as of July 1, 2016.
- As a concession to liquor stores, the state allowed them to sell beer, food products, party supplies and tobacco.
- At the time, liquor store owners estimated a 30% loss of their business; legislators thought that was an exaggeration.
- **1 Year Later: Reports from liquor stores say wine sales are in fact down 30 percent, if not more**
- "We lost \$2 million in revenue just from grocery stores and wine sales. So that really destroyed our cash flow."
 - David Purvis, Owner, Farragut Wine and Spirits



Regulatory Considerations

Expanding the alcohol marketplace



- **More licensees, No additional resources**
 - States face decreasing budgets and decreasing workforces but greater demands to enforce trade practice issues and more complex entities and licensure
- **Heightened awareness of trade practice laws**
 - Alcohol is a unique product, unlike milk, bananas or other consumer packaged goods, and has its own set of trade practice laws
 - New (and existing) industry practitioners and regulators should know the laws, what is allowed
- **Tied House & Category Management**
 - As leverage shifts from large suppliers to large retailers, are federal and state trade practice laws applicable/adaptable/amendable to address today's regulatory realities?



A Cautionary International Tale

Countries concerned about their marketplaces



- **Canada: Grocery stores, craft breweries behind declining Beer Store sales**
 - “Ontario's decision to allow grocery stores to sell beer and the growth of craft breweries are two of the main forces driving declining sales.” (Source: CBC News, 8/13/17)
- **U.K.: Pubs call for action on cheap supermarket alcohol**
 - “British publicans see cheap supermarket alcohol as the single greatest threat to their industry, and support government action to raise prices, according to a new Institute of Alcohol Studies (IAS) report.” (Source: www.politics.co.uk, 9/1/17)
 - **BONUS:** “British drinkers have almost 50,000 pubs to pick from yet remarkably little real choice. Six chains control nearly a third of the market. Regulatory approval of Heineken's Punch Taverns pubs acquisition will shorten the list further.” (Source: Financial Times, 8/19/17)
- **New Zealand: Ban alcohol in supermarkets – doctors**
 - “The Medical Association wants to see alcohol banned from the aisles of supermarkets. Alcohol Health Watch has joined in, describing supermarkets as New Zealand's worst drug pushers.” (Source: NewsHub, 5/8/17)

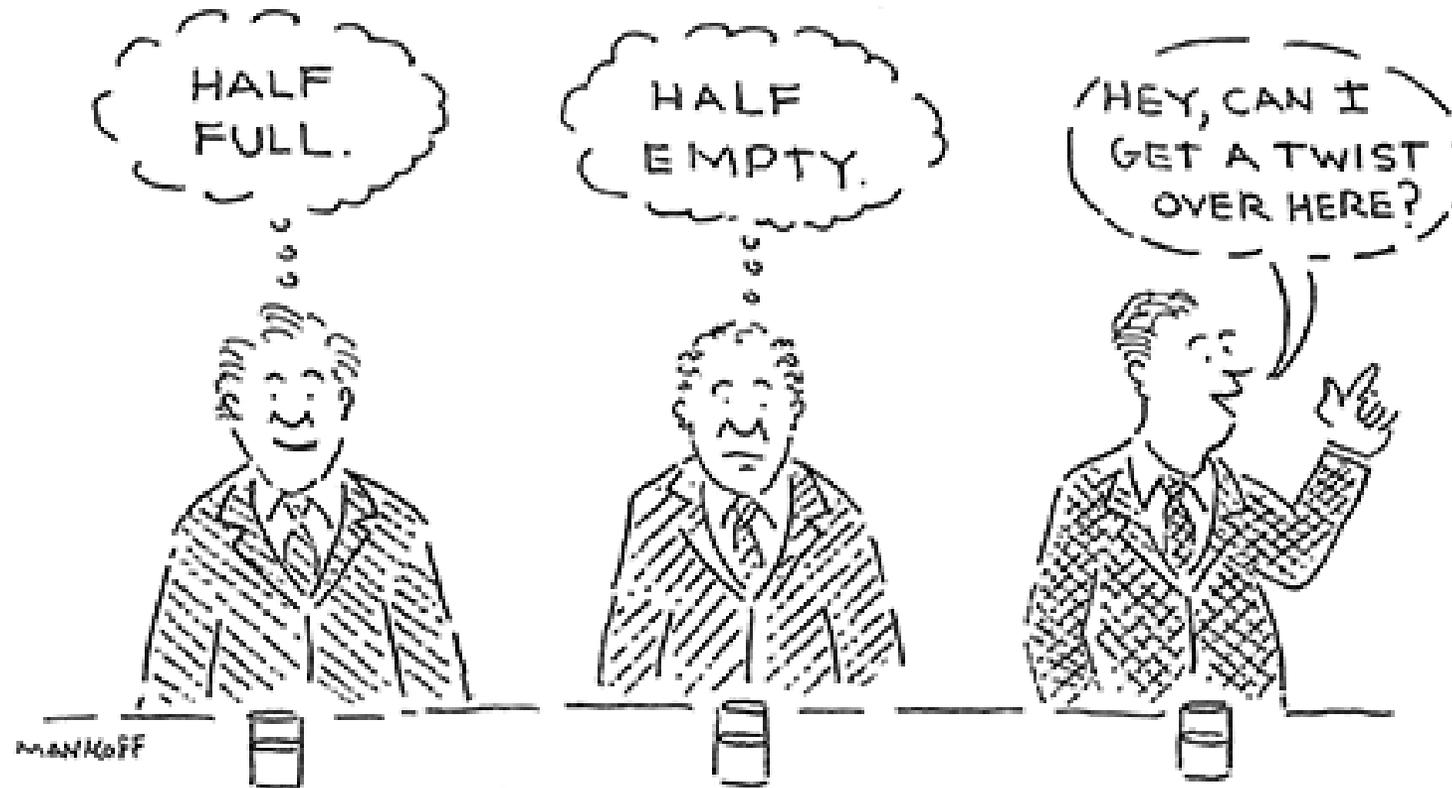
For your consideration...

Some modest observations



- Solve problems in the marketplace before making them a policy issue.
- Embrace evolution, but understand that with a flat (on volume) beverage alcohol market, it is a zero sum (or even negative sum) game when it comes to jobs. Incremental, consensus-driven change is a worthy goal.
- Consumer convenience is important – as is fair competition– but should not trump responsibility, accountability and public safety.
- Don't forget what got us to this Golden Age of beverage alcohol. (HINT: It wasn't a European, grocery-dominated, vertically integrated model.)
- **WE'RE IN THIS TOGETHER:** At the end of the day, we all do better when we all do better. (Sorry to be tautological.)

Questions & Discussion



-  OPTIMIST
-  PESSIMIST
-  PRAGMATIST